

Updated Fiscal Cost Projections on the Government's Emergency Financial Stabilization Programs

U.S. Department of the Treasury
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Emergency Response to the Financial Crisis

In 2008 and 2009, the U.S. government and Federal Reserve put in place a comprehensive set of emergency programs to stabilize the financial sector and help prevent a second Great Depression.

- Troubled Asset Relief Program (TARP)
- Fannie Mae and Freddie Mac Preferred Stock Purchase Agreements (PSPA)
- Treasury Mortgage-Backed Securities (MBS) Purchase Program
- Treasury Temporary Guaranty Program for Money Market Funds (MMF)
- Federal Deposit Insurance Corporation
 - Temporary Liquidity Guarantee Program
 - Deposit Insurance Account Limit Increased
- Federal Reserve
 - Emergency Programs for Specific Institutions
(AIG Credit Facility; Maiden Lane I, II, and III)
 - Asset Purchase Programs
 - Other Emergency Credit and Market Liquidity Programs

Stabilizing the U.S. Financial System at a Profit for Taxpayers

Many believed that the government's emergency financial stabilization programs would have a significant fiscal cost for taxpayers.

- In March 2009, the Congressional Budget Office (CBO) estimated that TARP would have a lifetime cost of \$356 billion.^{1/}
- In January 2010, the CBO estimated that placing Fannie Mae and Freddie Mac in government conservatorship would cost \$389 billion.^{2/}
- In July 2009, Special Inspector General for TARP Neil Barofsky stated that the government's emergency financial stabilization programs had put \$23.7 trillion taxpayer dollars at risk.^{3/}

Resolving past financial crises has had substantial fiscal costs

- An IMF study found that the average net fiscal cost of resolving 42 systemic banking crises between 1970 and 2007 was 13 percent of GDP.^{4/}
- The Government Accountability Office estimated that the net fiscal cost of cleaning up the U.S. savings and loan crisis was 2.4 percent of GDP.^{5/}

Of course, the true cost of the financial crisis is not just measured through fiscal costs.

- Millions of Americans lost their jobs and homes. Businesses closed. Markets collapsed.
- We're continuing to work to repair that damage.

Moreover, the most important measure of success for these programs is that they stopped the panic and saved American jobs. But Americans also want to know about the cost of these programs.

Stabilizing the U.S. Financial System at a Profit for Taxpayers

Footnotes:

1/ CBO, A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook, Mar. 2009, at 8, available at <http://www.cbo.gov/ftpdocs/100xx/doc10014/03-20-PresidentBudget.pdf>. Also see, <http://cboblog.cbo.gov/?p=231>.

2/ CBO, Report on Troubled Asset Relief Program Transactions through June 17, 2009, Jun. 2009, at 2, available at <http://cbo.gov/ftpdocs/100xx/doc10056/06-29-TARP.pdf>.

3/ Neil Barofsky, SIGTARP, Prepared Testimony Before the House Committee on Oversight and Government Reform, Jul. 2009, at 3, available at http://www.sigtar.gov/reports/testimony/2009/Testimony_Before_the_House_Committee_on_Oversight_and_Government_Reform.pdf, . In SIGTARP's July 2009 report, that figure is estimated as \$23.7 trillion. See, available at http://www.sigtar.gov/reports/congress/2009/July2009_Quarterly_Report_to_Congress.pdf).

4/ Luc Laeven and Fabian Valencia, Systemic Banking Crises: A New Database, IMF Working Paper No. 08/224 (2008). Net fiscal cost is defined as gross fiscal cost minus costs recovered within five years after the start of the crisis.

5/ Government Accountability Office, *Financial Audit: Resolution Trust Corporation's 1995 and 1994 Financial Statements* (1996), at 13, available at <http://www.gao.gov/archive/1996/ai96123.pdf>.

Stabilizing the U.S. Financial System at a Profit for Taxpayers

Based on current market conditions, Treasury estimates that the government's emergency financial stabilization programs will earn a profit of approximately \$24 billion for taxpayers.

Program	Projected Taxpayer Profit (Loss)
TARP + Other Treasury AIG Common Stock	(\$28.1B)
Treasury MBS	\$13.5B
Treasury MMF	\$1.2B
FDIC Programs	\$0.0B
Federal Reserve Programs	\$110.0B
Fannie/Freddie PSPAs	(\$73.0B)
<u>GRAND TOTAL</u>	<u>\$23.6B</u>

Detailed Cost Estimates for Emergency Government Financial Programs

Estimates of Income (Loss) from Emergency Government Financial Programs^{1/} <i>(Billions of Dollars)</i>	
TARP & Other AIG	
<i>Investments in Banks^{2/}</i>	19.7
<i>Credit Market Programs^{3/}</i>	0.5
<i>AIG^{4/}</i>	12.1
<i>Autos</i>	(14.8)
<i>Housing^{5/}</i>	(45.6)
+ Subtotal TARP & AIG	(28.1)
+ Treasury - MMF	1.2
+ Treasury - MBS^{6/}	13.5
+ FDIC^{7/}	0.0
Fed Emergency Programs^{8/}	110.0
+ GSE / PSPAs^{9/}	(73.0)
Total	23.6

Note: Future returns are uncertain and will depend on future financial and economic conditions. Does not include stimulus through the American Recovery and Reinvestment Act (ARRA) or under the Bush Administration. Cited footnotes presented on next page.

Detailed Cost Estimates for Emergency Government Financial Programs

Footnotes:

1/ Deficit impact estimates.

2/ Includes Capital Purchase Program (CPP), Targeted Investment Program (TIP), Asset Guarantee Program (AGP), and Community Development Capital Initiative (CDCI).

3/ Includes Public-Private Investment Program (PPIP), Term Asset Backed Securities Lending Facility (TALF), and Purchase SBA 7(a) Securities (SBA).

4/ In the President's FY2012 Budget the estimated subsidy cost of TARP investments in AIG was \$8 billion, reflecting a common share price of \$35.84 as of November 30, 2010. In addition, Treasury received 563 million shares of AIG common stock from the trust created by the Federal Reserve Bank of New York (FRBNY) for Treasury's benefit when the FRBNY created a credit facility for AIG in the fall of 2008. Using the same November 30, 2010 closing price those shares would be valued at \$20.2 billion.

5/ Reflects obligations made through Making Home Affordable, HFA Hardest-Hit Fund, and FHA Refinance Program, and assumes all funds committed to these programs will be spent. The housing programs were designed to support responsible homeowners and were never expected to result in repayment.

6/ The FY2012 Budget estimates that net earnings on Treasury's MBS holdings over their life will be \$13.5 billion.

7/ The FDIC expects that fees paid by participating institutions will cover any losses associated with TLGP Debt Guarantee and Transaction Account Guarantee Programs. Fees generated through the programs greatly exceed losses to date. Although the Deposit Insurance Fund (DIF) balance fell to negative \$21 billion as of December 31, 2009, the FDIC reported \$66 billion of cash and marketable securities as of the same date. The DIF is funded through assessments on insured institutions. The FDIC collected approximately \$46 billion of prepaid assessments on Dec. 30, 2009, representing 13 quarters (2010Q1-2013Q1) of assessments. The Dodd-Frank Act in part authorized the FDIC to set the minimum DIF reserve ratio to 1.35 percent, up from 1.15 percent. The FY2012 Budget projects that the DIF reserve ratio will be positive in 2015 and reach 1.35 percent by 2020.

8/ Treasury estimates of "excess" earnings from the Federal Reserve applied to the Budget. "Excess" earnings reflect earnings on loans and asset purchases made by the Federal Reserve through extraordinary programs put in place to address the financial crisis. We assume "excess" earnings will be realized by 2013. The Federal Reserve generates significant income on its assets during "normal" times, the majority of which it remits to Treasury. For example, in 2006, prior to the financial crisis, the Federal Reserve remitted \$30 billion of such earnings. To estimate "excess" earnings, we calculate a path of "normal" earnings since 2006. We assume earnings would have increased at a uniform rate from 2006 (actual) to the level projected by the FY2012 Budget for 2014. The amount of future Federal Reserve earnings is uncertain and will depend on future financial and economic conditions.

9/ The FY2012 Budget projects that net payments to the GSEs through the PSPAs through FY2021 will be \$73 billion.

Detailed Cost Estimates for Emergency Government Financial Programs

Detail: Cost Estimates for TARP & Other AIG^{1/}

(Billions of Dollars)

	FY 2012 President's Budget

Bank Support Programs	
Capital Purchase Program (CPP)	12.4
Targeted Investment Program (TIP)	3.8
Asset Guarantee Program (AGP)	3.7
Community Development Capital Initiative (CDCI)	(0.3)
Credit Market Programs^{2/}	0.5
Other Programs	
Tarp Investments in AIG ^{3/}	(8.0)
Other AIG ^{4/}	20.2
Automotive Industry Financing Program (AIFP)	(14.8)
Housing Programs ^{5/}	(45.6)
Total	(28.1)

^{1/} Deficit impact estimates.

^{2/} Includes Public-Private Investment Program (PPIP), Term Asset Backed Securities Lending Facility (TALF), and Purchase SBA 7(a) Securities (SBA).

^{3/} Outstanding represents TARP basis in common and preferred shares.

^{4/} In the President's FY2012 Budget the estimated subsidy cost of TARP investments in AIG was \$8 billion, reflecting a common share price of \$35.84 as of November 30, 2010.

^{5/} Reflects obligations made through Making Home Affordable, HFA Hardest-Hit Fund, and FHA Refinance Program, and assumes all funds committed to these programs will be spent. The housing programs were designed to support responsible homeowners and were never expected to result in repayment.

Detailed Cost Estimates for Emergency Government Financial Programs

Detail: Realized Earnings and Outstanding Credit or Holdings on Emergency Federal Reserve Programs

(Billions of Dollars)

	Realized Earnings Through Year End 2010	Credit Outstanding or Holdings as of March 23rd, 2011
Credit Programs for Overall Market Liquidity		
Commercial Paper Funding Facility (CPFF)	4.414	0.000
Asset Backed CP Money Market Mutual Fund Liquidity Facility (AMLF)	0.073	0.000
Term Auction Facility (TAF)	0.804	0.000
Term Asset-Backed Securities Loan Facility (TALF)	0.812	19.500
Primary Dealer Credit Facility (PDCF)	0.036	0.000
Central Bank Liquidity Swaps	2.180	0.000
Credit Programs for Specific Institutions		
Credit Extended to AIG	4.103	0.000
Maiden Lane LLC	3.753	25.589
Maiden Lane II LLC	2.337	15.900
Maiden Lane III LLC	3.275	22.919
Asset Purchase Programs		
Federal Agency and GSE Mortgage-Backed Securities	66.907	943.848
GSE Debt	5.558	132.495
Total	94.252	1,160.251

Source: Federal Reserve System Monthly Report on Credit and Liquidity Programs and the Balance Sheet April 2010, March 2011.